

Finance Committee Meeting

January 22, 2013
2:00 p.m.

Committee Members Present: Larry Dill, *Chair*, Clyde Nakaya, Roy Oyama

Staff Present: David Craddick, Gregg Fujikawa, Keith Aoki, Aaron Zambo, Dustin Moises, Marites Yano, Deputy County Attorney Andrea Suzuki

Guests: James Nishida, Jeremiah Kaluna, Shawn Shimabukuro, *Grove Farm*, Royce Kawabata, *Grove Farm*, Michael Tresler, *Grove Farm*.

Chair Dill called the Finance Committee Meeting to order at 2:10 p.m.; quorum was achieved with all members present.

AGENDA

Mr. Oyama moved to accept the agenda; seconded by Mr. Nakaya; with no objections, motion was carried.

ACCEPTANCE OF THE MINUTES

February Committee Meeting – February 28, 2012

Commission Support Clerk advised the Committee to amend the agenda to reflect the date of the minutes to February “29th”.

February Committee Meeting – April 10, 2012

February Committee Meeting – April 24, 2012

February Committee Meeting – May 24, 2012

Chair Dill stated there were no substantial changes to any of the minutes. Commission Support Clerk will make corrections to any typos.

Mr. Oyama moved to accept the Finance Committee minutes of February 28, 2012, April 10, 2012, April 24, 2012 and May 24, 2012 as amended; with no objections, motion was carried with 3 ayes.

At 2:05 p.m. Chair Dill rearranged the agenda to move up the New Business Item 6a. regarding the Needs Assessment Study and FRC Updated dated January 2013.

6. NEW BUSINESS

a. Needs Assessment Study and FRC Update dated January 2013

BACKGROUND

Mr. Andrew Baker, SAIC, presented a brief overview of the Facilities Reserve Charge (FRC) and significant changes from the previous changes and went over the proposed FRC changes (*via conference call and PowerPoint presentation*). The existing FRC was done in 1993 and last updated in 2004. The necessary changes to project costs and the charges continue to be equitable and reflect the cost required to serve new development. The Water Plan 2020 was completed in 2001 which provided

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the technical basis for the FRC update in 2004. The technical ground work and long-term capital planning continues to be the basis for parts of the FRC update.

The report referred to the Needs Assessment Study and FRC update. The Needs Assessment Study is a portion of the FRC update where the level of service standards, additional demands resulting from development, efficiencies on existing facilities and the project of capital facility needs were identified. This is a prerequisite to the FRC calculation which is required by state statues.

Mr. Baker clarified that the FRC is a one-time charge for a new connection which is commonly referred to as “impact fee” or “system development charge.” The FRC represents a proportional share of the cost of the water system capacity. The existing charge that was established through the 2004 study is \$4,600 for a single family 5/8” meter. The larger meter sizes are charged a higher fee proportional to the capacity available served by the larger meter sizes. Hotel connections are charged on meter size connection or the single family rate per unit whichever is higher to account for their water system demands.

Four (4) major steps in the update process include:

1. The Needs Assessment Study is the technical basis for the Water Plan 2020. The profits started with the review of the capital program. Along with this review, the SAIC worked with the Department of Water (DOW) staff to incorporate an update of the system capacity and cost of the projects. It has been a decade from the cost estimates that was used for Water Plan 2020. There were a variety of changes that needed to be addressed. Out of the Needs Assessment Study, there is a list to identify system efficiencies, the needs to support projected growth and the cost associated with those projects.
2. Review of the FRC methodology was presented last year.
3. The calculation of FRC charges and schedules – Three (3) primary components are the source and storage which are based on the Department’s incremental cost to develop new source to meet the projected growth. The transmission component is based on the cost to provide the transmission system capacity. That calculation differs from source and storage which are similar and the capacity of the transmission system is provided by the existing and future facilities.
4. Final recommendation and the new rule - (*refer to draft in the packet*) The Table matches Table B-1 in the Appendices and presents the calculations for the unit cost of new source capacity. These projects were identified in the Needs Assessment Study as being projects or growth. For example, the Anahola Well is entirely for growth. A portion of it is a direct item of an existing system deficiency. What is included is only the capacity provided for growth and the cost associated with just the growth capacity. This is only a portion of the total project cost and only the portion of the total project capacity. The total source capacity is identified for growth and the total cost to provide that. An adjustment was made to account for an increase of cost associated with debt financing a portion of these projects which is regular practice. This adjustment is made in the calculations (*See Appendices for details*). This captures the total cost to the FRC fund of constructing these projects providing the required capacity. The unit cost of growth related source capacity is calculated in dollars per gallons per day which is 262 gallons per day. This is put in dollars per fixture unit which is based on the design standards max day demand of 750 gallons per day per Equivalent Residential Unit (ERU) and 30 fixture units per ERU.

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Chair Dill inquired how was the 10.9% reached. Mr. Baker arrived on the 10.9% in the total cost and is identified in the Cost Column. This has all of the source capacity projects and it is compared to the cost for growth. The total cost number was not adjusted for the bond financing. Mr. Baker will double check the calculations.

The Source Component on Table C-2 is the same calculation and is similar in the approach. They are the identified projects, the total project costs, the total project capacity provided, and the portion of this is for growth based on existing system deficiency. The total is calculated and adjusted for the debt financing and the calculation is \$88.9M total cost per growth divided by the 10.1M gallons per growth per gross unit storage capacity for \$8.78 per gallons per day (gpd). The same calculation is made in terms of dollars per fixture cost. Manager Craddick mentioned that the committee reviewed the report that was received earlier this month. The numbers differ slightly which are lower.

Mr. Baker explained why the price went down. Some tanks were identified that were constructed but were debt financed and the payment of this debt was dedicated from the FRC fund. Those tanks were noted on the report. Because of those projects that were added, the ratio of costs to capacity provided was lower and brought the total unit cost down. This represents a unit cost for all of the projects that are going to be added, adding additional projects does not necessarily increase the FRC charge because they may be more efficient projects. Manager Craddick added there are stable tanks in Kapililimao, Kapa'a Homesteads and Piwai projects which were already constructed. The Department is paying the debt service on the FRC fund.

In the transmission component, there are existing facilities that are able to service development but the additional facilities are needed. The intent of this calculation is to determine the present value of the total system that will be required to serve demand at the end of the study period. First the calculation of the total cost of the new transmission projects that are identified as necessary to preserve the projected demand in Table C-3. The same calculations steps are made in terms for the total cost for growth.

Table C-4 works through the calculation steps to determine the present value of the portion of the system that will still be in service in 2030. Some of the existing facilities will be replaced. This accounts for the additional facility that was identified for growth.

Step 8 shows the present value of the whole system that will be required to serve for the projected demand. This is done by calculating the projected demand and dividing those values to get the unit cost of the transmission capacity.

The FRC credit is a statutory requirement. When a new customer comes into the system, they would pay through their regular rates for projects that will eliminate existing deficiencies that are for source and storage, repair and replacement projects and for debt service payments added to their rates on existing facilities. Through the previous three components the calculated fee covers the cost of the new capacity required to serve a new customer. What the customer would pay for is a proportional piece of a brand new system. But in reality the whole system is partially depreciated, and there is on-going repair work.

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The reason for the credit requirement is it isn't feasible for the new customers not to pay the portion of the rates for the deficiencies but to apply a credit against the fee to account for these future rate payments. The calculation for this credit is a projection of the amount of cost in terms of rate revenues for these items divided by projected system-wide water sales and the dollar per gpd cost is over 20 years as stipulated by the statute and brought back to present value in terms of dollars per gpd. The same approach as before is used to calculate the FRC credit per ERU and for fixture units. Mr. Baker explained the units that are divided are system-wide water sales which are equivalent to average day demand. When designing the well to determine how many ERU's it can serve or the storage tank, the design standards stipulates the max day demand. The units that were used in the previous calculations are simplified per gpd but it is really per max day per gpd. In this calculation it is per gpd average day demand. This is why the average day standard is used in the calculation.

The last section summarizes the calculations for non-agriculture meters and shows an example of a calculation for a typical residential unit for 5/8" meter with 30 fixture units.

For agricultural meters which are size based on fixture units, the chart calculates in the previous study by using the American Water Works Association (AWWA) table of flow equivalent based on the meter capacity which is relative to a 5/8" meter.

The major factors responsible for the changes in costs are:

1. General inflation over the time period and the additional construction cost increases.
2. The inclusion of the cost of planning, land and design involved in the projects which were not included in the previous study but is paid out of the FRC fund and should be included.
3. There were changes made in abandonment which increased projects costs for some transmission projects and the adjustment for debt financing of gross projects or how the Department is paying for these projects and how the FRC funds are being used.

DISCUSSION

Manager Craddick mentioned that the adjustment of debt service is 10% of the total amount of projects which is about 200M and equals about \$20M in projects. By borrowing more than this amount, the Department would have to review this. The Build America Bond (BAB) would go toward expansion projects. The Department picked 10% for all the projects. If the Department debt financed too much, they would not be getting enough revenue. Mr. Baker added that next time this comes around again to review the past and asked how well did this assumption match with what the Department ended up doing. This may vary from year to year and to consider the average over the period. The 10% is a reasonable assumption but there may have factors to make the Department change this in the future.

Mr. Baker commented in the previous study, the calculation on the meter size to use fixture units where possible. One significant benefit would be a closer correlation to the system demand and uses information that is readily available for permit application.

Additional considerations include, the phase in period which is the need to balance between an appropriate period for public notice and the impact that it will have FRC revenues of delaying phasing in an updated charge. A person could not tell from the calculation what the right number is but it is where one finds the balance with not being overly burdensome to the developers and not burdening the rate payers. If there is a FRC shortfall, the rate payers would burden the cost.

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Manager Craddick mentioned that the Rules Committee is reviewing the phase in period and asked if six (6) months public notice would be an appropriate period. Mr. Baker suggested there should be public outreach but with appropriate notification and six (6) months would be enough time for a developer to react. There will be a rush of customers applying for FRC's. The Department would not want customers applying for FRC's with projects that are not being built for two (2) years.

The FRC is calculated independently of the rates. Besides the credit, the Department would need to look at a new customer and what they are paying out of the rates. The calculation is made solely based on the projects need for capacity and what it is going to cost. It is appropriate to evaluate rates after the FRC phase in period is completed. This will have a substantial impact on the overall revenues and balance sheet. The credit is related to the rates. It may be appropriate to establish a transfer from the General Fund to the FRC Fund in the amount of the credit. The FRC calculation without the credit is the cost of the facilities before the deduction is paid out of the FRC fund. The credit exists to capture the amount that is going to be paid by the new customers through rates.

Manager Craddick inquired if the credit is adjusted for the time value of money owed over the years that the debt service is paid by the new customers. Mr. Baker explained that the credit is the present value of 20 years of that difference.

Chair Dill inquired what the annual transfer would be. Manager Craddick clarified that on average there is 100 meters a year and assume the size of 5/8" meters would give a close number. Mr. Baker suggested it would be about 200,000 on the order of magnitude.

Mr. Baker's last consideration is that the current dollar amount of the FRC has not changed since 2004. Currently, changes are considered with inflation and construction costs that would make a big leap. Some utilities index their FRC to CPI or use the Engineering News Record, Construction Cost Index. This would give the benefit of reducing the shock of one big jump less frequently. Every year would be adjusted on what the documented construction costs are.

Chair Dill referred to Table 4-6 regarding the rate shock, on the Percent Change Column. He questioned why did the 5/8" meter percent change more than double all of the other percentages which appear to be in the similar percent range? Mr. Baker will research what is contributing to the higher meter size changes.

Manager Craddick indicated when the Department used the standards for allocating the 5/8" meter all of the rest of the meters were allocated based on average use. When the Department designed the standard, this was the driver for the 5/8" meter. All the rest of the meters went down from average use and the Department is now assuming to properly size the meters and not just give a meter based on how many units there are. When this was not done, the fee for the 3/4" meter was \$60,000 and by seeing the \$40,000 difference, the challenge was how the Department was going to get the customer to properly size the meter if that was the charge that jumped to a 3/4" meter. This would work up to 2" for placement-type meters and beyond 2" this would not work very well. The Department would have to look at what the actual demand would be in gpm or fixture unit. Previously, this is how some meters were sized.

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Manager Craddick explained if a customer was doing a 100 unit condo, they could take a 5/8" meter and times it by 100 and get \$1.7M or a 3" meter is used and 15 fixture units times 100. With 1,500 fixture units times 583, this would equal \$870,000 versus \$1.7M.

Mr. Baker explained on the previous study, for the 5/8" meter to the 1/2" meter was not based on what is the capacity but an analysis for an average user with a 3/4" meter. The higher meter sizes of 2" to the 8" are the same percentage that was used with the AWWA scale.

Mr. Baker added by using the actual usage rather than the average usage, the 3/4" would be very high. A customer with 3/4" meter size should have a larger meter size. The 5/8" meter size is the foundation that everything is based from. Chair Dill inquired if the statement is true with 5/8" meter size that the \$17,000 would be significantly higher based on actual usage. Manager Craddick indicated if this is based on a lower number than standard, the percent would drop in gallons by 1/3. Mr. Baker added that the design of the facilities is based off of 750 gpd.

Manager Craddick indicated the Department has to build to the design standard. From 2007 to present the DOW has gone from 14M gallons a day to 12M gallons a day of usage. During that time there was an increase of customers. The low flow fixtures which are going in the new developments could be driving the decrease in usage. Within the Rules, the staff can look at low flow devices and if they feel the usage is going down and the fixture units can be adjusted. If a customer built in a low flow toilet, not many people would take the low flow out and put in a high flow toilet. This is being required by federal law that people cannot go to the high flow devices. It would be appropriate for the Department to look at this in the future. Mr. Baker advised this would be looked at when updating the Water Plan projections over the next planning period and spec what the actual use should be if the design standards will be based on this. Across the country the conservation issues are working and per capital flow is down.

Chair Dill referred to the three (3) bulleted items on Page 4-13, FRC Implementation and requested clarification from Manager Craddick regarding the index to customers, consider phasing in the credit portion of the calculation and the transfer from the General Fund to the FRC Fund. Manager Craddick indicated the phasing in was addressed with the Rules Committee. The Rules have an impact on staff more than the customer. The impacts to customers would be addressed with the Finance Committee. Manager Craddick added that any despair treatment of small business is removed so that everyone is treated on the same basis.

Manager Craddick mentioned that no decision has been made on the FRC. If there is a number for the FRC, it would not mean the Rules Committee would use FRC to size the 5/8" meter. The Rules Committee may take the \$17,000 for an 'ohana, a home that is six bedroom, four bath with a pool or time share, they would pay the same price. From the community meetings that were held recently this issue was discussed not over charging the low demand. There is an issue that a customer can turn in one number and after the building permit is approved, they make changes to their kitchen to use high amounts of water. Manager Craddick question if the rule is based on the customers who take advantage or to make a high penalty if the customer is caught which they would pay the whole fee over again. This activity would be minimized.

Chair Dill inquired if the Rules Committee is moving towards the fixed unit bases. Manager Craddick indicated the Rules Committee is sticking as close to the existing rules. There has been no public

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hearing yet. The level of the fee was not as important as being able to get a meter if this is what the cost is. Chair Dill is comfortable of the determination on the cost.

Chair Dill referred to Table 4-7, FRC Comparison with Other Hawai'i Water Utilities, under the Update DOW FRC Calculation column / Single Family residential, 5/8" meter (\$583 per F.U., minimum of 30) and questioned why is there a minimum of 30?

Manager Craddick explained that the Rules Committee can decide if 20 is the minimum and recommended to delete the minimum of 30 and say "based on 30 FU per 5/8" meter". Mr. Baker agreed to review the wording.

Manager Craddick inquired if the schedule on the storage component of the fee changed the percentage on FRC Offsets paid by the developer, on Table 4-8. Mr. Baker stated this was changed by 1% each which is 18% of the FRC Paid for Source, 35% of the FRC Paid for Storage and 47% of the FRC Paid for Transmission. Mr. Baker indicated on the previous calculation, the same calculation was done and got specific numbers and rounded to 30-30-40 for simplification. A preference can be accommodated.

Manager Craddick referred to Table 4-5 that based on the numbers. The cost per fixture unit and per gallon have a deduction on the bottom. The deduction is broken up by the percentages off of the total. Manager Craddick questioned if this would be an appropriate way to distribute the deduction of \$1900? Mr. Baker explained that it would be on the per fixture unit calculation but not on the unit cost. The credit is on average day as opposed to the max day. This could not be done if it went to the dollars for gpd. If you go to the per fixture unit (\$66), it could be proportionally spread out among the three primary components.

Manager Craddick questioned how would this be broken up for the gpd? On Table 4-5 Mr. Baker did not put a total. Mr. Baker suggested converting this to units of max day which is now \$3.96 average gpd that could be converted to max day demand gpd of using the max day ratio of 1.5. Mr. Baker will provide the total on a unit cost basis of max day gpd and the credit distributed among source, storage and transmission based on the proportional cost.

Mr. Baker explained if a developer provides the well, they would receive up to 18% credit of the total FRC. If the well costs more, the developer is capped at 18%. This is the proportion that is contributed to source capacity for the Department's cost.

Manager Craddick inquired if it cost less, would the DOW charge the difference between what they did and what the fee is? Mr. Baker clarified that the customer would receive an offset for the amount that it costs. If it costs 15% of the FRC, they would not get the full 18% offset; the customer would only get 15%.

Manager Craddick questioned what if the customer provided 100% for what they need for source but provided lower than the Department's unit cost? Mr. Baker would defer to an attorney's reading of the statutes. This was administered previously and the customer would only get up to what they paid regardless if they provided the full source capacity. This may be a point the Department would be challenged on.

Manager Craddick thanked Mr. Baker for his presentation.

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At 3:03 p.m., Chair Dill allowed testimony from the public.

Mr. James Nishida, private citizen provided his testimony

Mr. James Nishida shared with the Finance Committee that he put in his own distribution line for a short section. The reason Mr. Nishida did this was because the Nonaka family, who lives in front of him, did the bulk of the transmission line including replacing of the dozens of pipes at the Nonaka home which was real expensive.

Mr. Nishida feels the upgrade would benefit everybody. According to one of the tables, about half of the cost for the FRC will be in the transmission line. On another site, the upgrades are not included. Mr. Nishida inquired if the FRC upgrades included the distribution line. His distribution line was too small which was 3" which he had to make it a 6" distribution line. Manager Craddick explained the FRC fee does not cover distribution lines only the main line. Mr. Nishida questions if the 50% is an upgrade to the lines or all new lines and if any upgrade to the transmission line which is part of the FRC. Manager Craddick explained the upgrade is to the transmission lines.

Mr. Nishida expressed if the transmission line is part of the Fire Safety Code, then everybody should be charged for this. One of his neighbors had a boundary revision line and had to do a transmission line of 5,000 ft. Mr. Nishida felt this was unfair where everybody benefits. Mr. Nishida told Mr. Keith Aoki, Civil Engineer V, that it was unfair for the Nonaka's regarding their distribution line. If it is a benefit for everyone and no matter what the Department does there would be some spill over to the rate payers as the FRC is increased. Manager Craddick added that there should not be a spill over to the rate payers. The labor costs are not fully recovered.

Manager Craddick added that there is an administrative charge of 1% of the fee for a 5/8" meter which would be \$170.00 administrative charge to review a customer's request. If 100 x \$170 for the year is \$17,000, this would be half a staff person. The fee is not near what it costs and that eventually the Department will determine a fee.

Mr. Nishida raised a concern that the developers should not pay for an upgrade for the Fire Code to any of the lines or the source. Manager Craddick commented that is the reason for the deduction. When they calculate the fee it comes to about \$1,900 which is minused off. If there are no new users that come on to the system, all the existing and new rate payers would pay for the existing debt service. The deduction is the consultant's estimate of what would be paid over the life of the debt service. The new user will be paying the debt service for another system that got replaced. This was required by state law to reduce it based on what the customer is having to pay that is not related the customer's operation of the system.

Mr. Nishida commented that this charge would apply whether you get an updated line or not. Other questions he asked included how would the fee be held? With restrictions, how would a customer get a water meter? If the customer is paying the same water service and FRC as everybody else, and the FRC would be charged until the customer has the meter, how would the customer get the meter? Manager Craddick explained that this would be dealt with different systems. If the Department accepts

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the fee, it would be with the understanding that the tank would need to be built with 2-3 years before a meter is given.

The rules require the system to be adequate to give service. If the customer is not part of the community plan, there may be cases where the customer has to build the improvement or the Department cannot build a new system because it is too far from the Department's system.

Chair Dill commented that increasing the FRC is the reflection of the Department's cost to develop the service. This will enhance the revenue and build up the system. The goal is that the customer wants water; they pay the FRC to get water. This will be a process to get the county's 13 systems to the state. Today some of the systems do not have the capacity.

Mr. Nishida inquired if there will be a schedule to see that this area can satisfy a customer needs from 3 years to 7 years. Manager Craddick stated if there is a revenue stream, the customer could be informed when their needs will be satisfied. Chair Dill explained the Department has projects scheduled that will improve this situation. Mr. Nishida was directed to request a time table from Mr. Gregg Fujikawa, Chief of Water Resources & Planning.

Chair Dill thanked Mr. Nishida for his testimony.

Michael Tresler, representing Grove Farm Company his testimony

Mr. Michael Tresler expressed that Grove Farm Company is in a unique position as a developer and it is hard to comment because the items were not addressed from his written testimony on the FRC and how they are applied which was sent to Chair Randy Nishimura. The Commission Support Clerk alerted Mr. Tresler that his written testimony is on the Regular Board Agenda (1-24-13). Mr. Tresler would like the Finance Committee to review his written testimony.

Mr. Tresler recognized that the Department is raising the rates to an extremely high amount to almost 400%. Grove Farm Company was always told and promised that they can get away from this fee if they build a long transmission line and provide storage that would cost \$1M to have a meter. This is positive but premature because Mr. Tresler feels the Department is not set up to determine these increases.

Grove Farm Company does not want this to end up by costing them more money because the FRC will increase and when the calculations are done for the credits multiplied by 4 times. Mr. Tresler has heard discussion about taking into account other conservation measures such as non-potable water systems and fixtures which is positive.

Mr. Tresler stated he does not have all the answers yet and is very uncomfortable. He would like to comment later on the FRC and how it is being credited and what is being credited.

Mr. Tresler discussed with the consultant that there are some legal issues in the way the Department is doing this with developers being charged FRC when the developers builds their own system, which goes with transmission, source and storage. Mr. Tresler would like to see these addressed before the rates are implemented.

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Chair Dill thanked Mr. Tresler for his testimony.

Chair Dill called the Finance Committee meeting back to the agenda.

OLD BUSINESS

a. Water Service Development Fee – Report to the Finance Committee

BACKGROUND

Manager Craddick presented the WSDF report which looks at the cost projects to implement Water Plan 2020 which is based on the community plan. The projects costs include planning, land, design, construction and financing costs associated with source, storage, and water transmission pipeline.

The rules are being considered about a Water Service Request review charge. This is similar to a building permit fee. The Department is asking for a token amount to be charge until a thorough review of the cost can be provided and not to exceed \$2 per fixture unit, as described in the Uniform Plumbing Code, and shall be applied uniformly among all customers.

Manager Craddick referred to the schedule under the \$ per gallon column and distributed the credit. The storage fee changed and is no longer \$231.00 but is a lower number now. All of the charts will be updated.

Manager Craddick added that the cost per meter size be given only up to the 2" size if the Rules Committee settles on meter size as the criteria for assessment. If they do not settle on the meter size as the criteria, then this can be given as generic knowing that if the Department will be sizing the meter and fixture units and to use gallons. If an 8" meter size is used, a customer could get 1M gpd and this would not build the storage tank to hold the water by doing this with the meter ratios. Manager Craddick referred to the meter ratios on the chart which ramp up to the AWWA meter ratios.

The remaining issue is when the Board wants to reevaluate the fee. The first fee was put in place in 1970 at \$300 per 5/8" meter. The next change was in the 1980's when it went to \$600 per 5/8" meter. In the 1990's it went to \$2,000 and in the early 2000's the fee raised to \$4,600. The large jumps of 2 times to 3.3 times the current fee is called rate shock. To increasing the fee according to construction costs would reduce that shock. Manager Craddick suggested using the Engineering News Record Construction Cost Index. The data was compiled since 1913 and is universally accepted and is a good indicator because it is based on a smaller sample group. The Hawai'i PUC allows this for development fees which are in place with other water systems and is not an issue.

Currently development fees for fire lines are not charged. Fire flow is not considered a consumptive use of water but storage and transmission capacity is used. The Department is proposing a token charge so the next time the fee is looked at a proper charge can be assessed. The Department is also proposing the storage and transmission portion of the flow needed for the fire times 0.01 for commercial and for residential and the storage and transmission portion of the fee times 0.001. This amounts to about \$70.00 for residential fire use to go to a 3/4" meter. A commercial case using 2,000 gpm for two hours is 240,000 gallons times 23.3 times (cost per gallon) 0.81 times 0.001 (storage and transmission of the fee) is \$4,530.00.

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Manager Craddick indicated that the Department has been working on the rules. The Finance Committee wanted to look at the wording if it is acceptable to put in the rules.

Section III: WSDF Fee Schedule states:

- A. The WSDF imposed shall be as set forth in the WSDF Schedule, in Part IV, Section VII of the Department Rules. The WSDF Schedule was created in accordance with a report prepared by an independent consultant as adopted by the Board for the purposes of WSDF assessment. The report calculated the costs associated with water development needs as laid out in the Department of Water facilities Needs Assessment Study entitled "Water Plan 2020" as amended.

A copy of the Flow Table from AWWA Standards was provided in the packets. Manager Craddick referred to the column, Recommend Maximum Rate for Continuous Operations, the 5/8" and 3/4" meter and the column for 10, 15, 25, 50 gpm. The meter ratio is determined by taking each of the ratios compared to 5/8 and 3/4 meters.

6. NEW BUSINESS

b. Part 4 Fixing Rates for Water Service, Section VII Facilities Reserve Charge

BACKGROUND

Manager Craddick referred to Page 145 (*iPad or web*) which provides the suggested rule changes and the amended version is on Page 150. The Section VII of the Part IV Rules which deals with the Impact Fee. The first section deals with the Construction Cost Index which will be followed but shall not increase more than four percent average per year.

DISCUSSION

Chair Dill suggested changing the wording to say "four percent average per year over the last five years" or "no more than four percent from year to year."

Ms. Yano, DOW's Water Controller passed out an FRC collection time table reflected from 1990-2013.

Received for the Record on January 22, 2013 at the Finance Committee Meeting.

FRC COLLECTIONS:

1990	\$	429,100
1991	\$	318,861
1992	\$	412,660
1993	\$	349,892
1994	\$	672,948
1995	\$	1,010,805
1996	\$	765,070
1997	\$	317,340
1998	\$	522,593
1999	\$	454,860
2000	\$	421,200

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2001	\$	385,000
2002	\$	488,928
2003	\$	892,000
2004	\$	942,933
2005	\$	1,996,613
2006	\$	1,648,468
2007	\$	1,711,700
2008	\$	2,785,600
2009	\$	852,000
2010	\$	383,800
2011	\$	1,002,800
2012	\$	547,100
2013		

Mr. Nakaya moved to receive the FRC Collection data to the record; seconded by Mr. Oyama; with no objections, motion was carried.

Manager Craddick explained that the FRC has been collected from 1990 to 2012. The average fee collected since 2008 and 2012 was \$1,114,760. If the fee increased, the amount would go up to about \$3M. This could be the result because of a good economy. From 2008, the Department has been collecting \$4,600.

Mr. Nakaya inquired if a lot of development plans were submitted during 2005 - 2007. Mr. Fujikawa suggested asking the developers.

Manager Craddick provided the average percent of \$4,600 to \$17,000 over 10 years to equal \$12,085.00 per year which is 28% per year. If the gallons per house goes down the fee would go down. If the Department reduces their standards, they would not have to build as much. Mr. Oyama inquired if the standards drop, there would be a lesser amount on a per unit basis. Manager Craddick added that the Department is currently redoing the standards statewide.

The second issue in the amended Section VII was on the WSDF Schedule for source, storage and transmission. The third issue refers to the meter sizes up to 2" which the WSDF will increase according to the AWWA Standard. The fourth issue referred to the private Fire lines which shall pay a WSDF for the portion of the fee related to storage and transmission cost. The administrative charge for review of the Water Request is \$2 per fixture unit as defined by the Uniform Plumbing Code.

Chair Dill inquired if the Department uses meters different than the Badger meters currently used, this same methodology will be used for the meter approved by the Department. He question if the same meter would have to conform to the AWWA standard.

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Manager Craddick acknowledged that there are other types of meters, single jet, multi jet and fusion meters with different flow capacities. Adjustments would be made on different meters and could be applied to the methodology. This would not restrict the Department on the Badger meters.

Manager Craddick heard that there are some meters that are failing. There should be a pro-rata charge on the meters and the Department should be charged $\frac{1}{2}$ the cost of a new meter if the meter died out. Ms. Yano confirmed there were complaints from the Meter Readers of bad readings.

Chair Dill requested Manager Craddick to provide an example for a private Fire line development fee for the 1% and 2-1/2% calculation. The administrative charge for a single family would be \$60 with a 5/8" meter.

Chair Dill stressed to keep the changes moving forward so the new charges can be implemented.

Manager Craddick indicated the updated changes would be available later after today's meeting.

Mr. Nakaya requested to make the financial decisions prior to the Rules being changed.

Chair Dill clarified that the fee is determined by the Finance Committee but the manner of the fee of phasing in and applied is the Rules Committee. Manager Craddick referred back to Page 150 that whatever the Rules Committee determines the information on the chart works but does not address beyond 2". The meter size and charge is determined by the Department. The Department could use gallons or fixture units (commercial sizes). Manager Craddick indicated that the 5/8" meter and 100 units in the condo/hotel charge 100 times \$17,000 which comes to \$1.7M would exceed the fee for the 8" meter which is in the Rules. From the public testimony there would need to be considerations on the per unit charge. Manager Craddick would not suggest approving this and would not go to a public hearing before the Rules Committee. Mr. Nakaya strongly requested to get the information sooner on the product so it can be presented to the public for review.

Manager Craddick received the report the end of January 2013. The first report was done in 2010 and the fee was \$9,000. The Department would not have met the debt service at that amount. It was determined that the fee was based on the average use of the meter sizes. The meter sizes were based on something that can come back and correlate to an industry standard which could not be done. The Department would base 5/8" meter on the standards. The fee came up to \$20,000 but with the credit, it comes down to \$17,000. Manager Craddick is satisfied to pay the bond on the expansion projects within two years.

Mr. Oyama asked if the demand would still be like the previous year's fees. Manager Craddick commented that there has to be a few larger sizes. Some people may go to 3/4" and to get some revenue. If you look at the averages, the Department may collect \$4M. The debt service is \$2.5M and this would allow \$1.5M a year to go to unfinanced projects.

For the next budget year, the Department will pay the full principle plus interest on the \$60M bond. \$10M of work on the expansion has already been done.

A future Finance Committee meeting will be set within the next week.

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ADJOURNMENT

At 4:01 p.m., Chair Dill adjourned the Finance Committee meeting.

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